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SIPDIS

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STATE FOR NEA/MAG (HARRIS) AND EB/CIP
STATE PASS USTR (BELL), USPTO (ADLIN AND ADAMS), USAID (MCCLOUD)
USDOC FOR ITA/MAC/ONE (NATHAN MASON), ADVOCACY CTR (JAMES), AND CLDP
(TEJTEL)
CASABLANCA FOR FCS (ORTIZ)
LONDON AND PARIS FOR NEA WATCHER

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TAGS: ECON ETRD EFIN ENRG EAID EPET TS
SUBJECT: TUNISIA ECONOMIC HIGHLIGHTS: Nov. 1 - Nov. 30

REF: A. TUNIS 2848
¶B. TUNIS 2749
¶C. TUNIS 2303
¶D. TUNIS 629
¶E. 2005 TUNIS 2433

¶1. (U) This cable contains highlights of recent economic
developments in Tunisia on the following topics:

¶A. Tunisia Plans to Build Nuclear Power Plant by 2020
¶B. Tunisie Telecom Privatization Receipts To Reduce
External Debt
¶C. Central Bank Intervenes in Bank Lending
¶D. GOT Subsidies Reach 0.7 Percent of GDP in 2006
¶E. Central Bank Raises Reserve Requirements

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Tunisia Plans to Build Nuclear Power Plant by 2020
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¶2. (U) On November 22, Mr. Othman Ben Arfa, head of state-owned power utility Societe d'Electricite et de Gaz (STEG), announced Tunisia's decision to develop nuclear energy for power generation by ¶2020. Ben Arfa stated that the project will begin with four years of feasibility studies that will explore technical, logistical, safety, and financial aspects. The GOT expects to finish the project in 2020, with seven years to build the nuclear power plant. The plant will produce 900 megawatts, or nearly 20 percent of the country's current production capacity. By 2020, national power consumption is expected to reach 22 million megawatts, necessitating a doubling of current energy production.

¶3. (SBU) Comment: Soaring oil prices and growing power consumption have made nuclear energy an attractive alternative for the GOT (Ref E). According to GOT statistics, each one USD increase in oil prices, beyond the level of 50 USD per barrel, increases GOT expenditures by 40 million USD per year. Oil imports have also contributed to growth in Tunisia's trade deficit and to lowered expectations for 2006 GDP growth (Ref B). End Comment.

Tunisie Telecom Privatization Receipts

To Reduce External Debt

¶4. (U) Several local publications have recently reported that the GOT plans to use a portion of the hard currency receipts from the privatization of Tunisie Telecom to reduce external debt. Tunisian weekly magazine Ralits reports that 426.5 million dinars (330 million USD) will be applied, while state-run Tunis-Afrique Presse reports that two-thirds of the receipts (approximately 1.53 billion USD) will go towards external debt repayment. The March 2006 privatization of a 35 percent stake in Tunisie Telecom is Tunisia's largest privatization to date and earned 2.3 billion USD (projected to represent about 7.5 percent of GDP for 2006) (Ref D). According to the June 2006 IMF Article IV Report, external debt represents a sum equal to 68 percent of Tunisia's GDP.

Central Bank Intervenes in Bank Lending

¶5. (U) On November 27, the online business magazine African Manager reported that the GOT directed state-owned Socit Tunisienne de Banques (STB) to deal with the debts and losses of the state-owned electromechanical construction company, SACEM, so that the company can be privatized with a clean balance sheet. The company registered roughly 11.75 million USD in debt and 3.13 million USD losses in 2005. This decision comes on the heels of a recent Central Bank directive for banks to reschedule approximately 250 million dinar (roughly 194 million USD) in loans held by Tunisian olive oil producers and exporters. Tunisian olive oil exports fell below expectations in 2006, leaving many producers and exporters with unsold stocks (Ref C). The Central Bank's decision will allow local producers to borrow additional funds for the 2006-2007

agricultural season and postpone repayment until October 2007.

¶6. (SBU) Comment: Non-performing loans (Ref A) continue to represent nearly 21 percent of assets in the banking sector. Despite the Central Bank's stated desire to reduce the level of non-performing assets, continued intervention in bank lending practices adds to this burden and perpetuates the cycle of poor credit risk analysis that created the high levels of non-performing loans in the first place. End Comment.

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GOT Subsidies Reach 0.7 Percent of GDP in 2006
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¶7. (U) During parliamentary budget debates, Mr. Mondher Zenaidi, Minister of Commerce and Handicrafts, announced that the "Caisse de Compensation", the GOT subsidy fund, disbursed 284 million dinars (218 million USD) in 2006, remaining steady at 0.7 percent of GDP. In 2005, the fund disbursed 259 million dinars (200 million USD), also 0.7 percent of GDP. The fund is primarily used to subsidize cereals, vegetable oil, milk, cooking gas and pharmaceuticals, but notably does not include fuel and energy subsidies. Zenaidi projected that the fund would disburse 348 million TND (267.63 million USD) in 2007 if prices increase according to GOT expectations. The subsidy fund was created in the 1960s keep basic products as food and pharmaceuticals at affordable prices.

Central Bank Raises Reserve Requirements

¶8. (U) On November 29, the Central Bank raised banks' obligatory reserves on demand deposits, deposit certificates and other amounts owed to clients whose terms do not exceed three months to 3.5 percent from 1.5 percent. Wire reports quote a Central Bank manager as attributing the raise as an effort to reduce the excess liquidity in the market.
BALLARD